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C O N F I D E N T I A L SECTION 01 OF 04 HONG KONG 003911

SIPDIS

NOFORN  
SIPDIS

STATE FOR UNDER SECRETARY JOSEPH  
STATE FOR EAP/CM, EB/TRA  
STATE FOR ISN/CPI RUGGIERO  
TREASURY FOR DAS GLASER/SHARMA  
NSC FOR STEPHENS

E.O. 12958: DECL: AFTER KOREAN REUNIFICATION  
TAGS: [ECON](#) [EFIN](#) [EWWT](#) [HK](#) [KN](#) [MC](#) [OVIP](#) [PARM](#) [PREL](#) [PTER](#)  
SUBJECT: SCENESETTER FOR UNDER SECRETARY JOSEPH'S VISIT TO  
HONG KONG OCTOBER 18-20

Classified By: Consul General James Cunningham. Reasons:  
1.4 b,d.

11. (SBU) Summary: We look forward to your visit next month. Hong Kong works closely with us on the security front. Your visit provides a timely opportunity to push ahead our agenda with Hong Kong in three linked areas:

-- Our shared commitment to secure trade, particularly through improving container screening programs.

-- Our work to ensure that Hong Kong maintains its effective counter-proliferation and export control regimes, autonomous from the PRC.

-- Our efforts to ensure Hong Kong's (and Macau's) vigilance against money laundering and illicit financial activities related to North Korea.

End Summary.

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SECURE TRADE  
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12. (SBU) A key theme for your visit would be our shared commitment to secure trade. As the largest source of U.S.-bound containers, Hong Kong was among the first in Asia to participate in the Container Security Initiative (CSI). Cooperation between Hong Kong Customs and Department of Homeland Security/Customs and Border Protection on CSI is exemplary and paved the way for CSI programs in Shanghai and Shenzhen. Two port operators, Hong Kong International Terminal and Modern Terminal, have each established a pilot of the Integrated Container Inspection System (ICIS), which combines radiological mapping, x-ray images, container tagging and makes a digital record for each container passing through its portals. Hong Kong's port operators, along with the Government (HKG), are considering whether to purchase this integrated port security system, but are waiting for U.S. government guidance as to whether the ICIS system meets U.S. requirements. The Port Security Improvement Act of 2006 passed by the U.S. Senate on September 14 directs the Department of Homeland

Security to designate three foreign ports for the establishment of pilot integrated scanning systems that couple non-intrusive imaging and radiological detection equipment. In this regard, Hong Kong appears to be a world leader and we should encourage them to continue their efforts as they move toward the shared goal of strengthening port/container security.

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PROLIFERATION AND EXPORT CONTROLS  
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13. (SBU) Hong Kong is a cooperative partner in preventing the transfer of goods through its ports that could be used by the DPRK in its missile and WMD programs. Hong Kong authorities emphasize that their Anti-Terrorism, Weapons of Mass Destruction, Narcotics and Serious Crime ordinances provide the necessary legal powers to act and convict persons engaging in illicit activities involving the DPRK. Hong Kong maintains an effective, highly autonomous, and transparent export control regime. In September, the Bureau of Industry and Security (BIS) Assistant Secretary Darryl Jackson congratulated the Hong Kong

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government for obtaining a conviction of a Hong Kong company for violations of Hong Kong's Strategic Goods Law in a case for which BIS provided Hong Kong key information. Hong Kong continues to be an important partner in protecting the smooth functioning of the global trading system. Its contributions reflect understanding of its role as a premier transportation center.

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HONG KONG 00003911 002 OF 004

MONEY LAUNDERING  
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14. (C) The Treasury Department's 2005 designation of Macau's Banco Delta Asia (BDA) as an institution "of primary money laundering concern" under Section 311 of the Patriot Act reverberated throughout the region. Macau authorities, cognizant of the attention the BDA designation had generated worldwide and the possible negative effects on investment and tourism revenues, immediately assumed control of BDA. In March 2006, Macau's legislature passed Anti-Money Laundering and Counter-Terrorism bills and in September announced the formation of a Financial Investigation Unit. Macau authorities are cooperating with U.S. Treasury/IRS Officials in the ongoing investigation of BDA. In September, investigators completed the task of scanning and digitizing 220,000 BDA documents and are now beginning the process of examining the data. In early September, Chief Executive Edmund Ho told the CG that Macau is willing to extend its control over BDA for another six months, but both Ho and the PRC's Ministry of Foreign Affairs Commissioner in Macau Wan Yongxiang told the CG that they hoped the BDA case would be resolved quickly. Asia's financial world will be watching carefully how our government resolves this case.

15. (C) Hong Kong's Monetary Authority (HKMA) appointed a manager to oversee BDA's Hong Kong subsidiary, Delta Asia Credit (DAC). The ultimate disposition of DAC will depend on how Macau decides to treat BDA. As the second largest financial market in Asia, after Japan, Hong Kong's cooperation in preventing financial transactions related to the DPRK's WMD and missile programs is crucial. HKMA has implemented a rigorous AML/CTF regime in line with international standards.

HKMA has alerted Hong Kong banks to exercise vigilance regarding North Korean financial transactions and HKMA officials have conducted reviews of North Korean transactions moving through Hong Kong banks. In September, as we briefed them on UNSCR 1695, Hong Kong Monetary and Police authorities expressed their willingness to continue to support these efforts. They urged the U.S. Government to provide specific, detailed, evidentiary information so that they can more effectively monitor, investigate, stop and prosecute illicit activities related to North Korea's missile and WMD programs. More general information on patterns and trends would also be very useful, said the Hong Kong officials.

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Itinerary  
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¶6. (SBU) We are arranging meetings with Hong Kong's Chief Executive Donald Tsang, Secretary for Security Ambrose Lee and Hong Kong Monetary Authority Chief Executive Joseph Yam on October 19.

¶7. (U) We have also arranged for you to give a luncheon speech to members of the Asia Society. The topic of your speech, "Defensive Measures: Combatting Weapons of Mass Destruction and Missile Proliferation" fits in well with our ongoing efforts here in Hong Kong.

¶8. (SBU) On October 20, we are arranging for the Treasury officials in your delegation to travel to Macau to meet with Chief Executive Edmund Ho, Secretary of Administration Florinda Chan, Macau

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Monetary Authority Chairman Anselmo Teng and Financial Investigation Unit Head Deborah Ng.

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Politics  
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¶9. (C) We have requested a meeting with Chief

HONG KONG 00003911 003 OF 004

Executive (CE) Donald Tsang, who heads the government of the Hong Kong Special Administrative Region (HKSAR). Tsang took office on June 21, 2005, following an interim election to fill the remaining two years of the term of former Chief Executive Tung Chee Hwa. Tung resigned in March 2005 due to widespread dissatisfaction over his management and political style. During his first eighteen months in office, Tsang has enjoyed high public approval ratings, reflecting confidence in Tsang's administrative competence, his deliberate outreach efforts and Hong Kong's robust economy.

¶10. (C) Your visit comes as Tsang prepares for what should be an easy reelection campaign. Under Hong Kong's partially democratic electoral system, in December various constituencies will select the 800 members of the Chief Executive Election Commission, which in turn will select the next Chief Executive in March 2007. Barring any severe political, economic, or social crisis, Tsang -- who enjoys strong support from the central government in Beijing -- will win reelection by a wide margin, and possibly will run unopposed. Many in the pan-democratic opposition parties had hoped that former Chief Secretary Anson Chan, a retired, highly respected career civil servant, would contest the election on their behalf, but she has declined to do so. Now, they will select one of their leaders to attempt to gain at least one

hundred nominations from the Election Commission, which would force Donald Tsang to face an opponent and presumably to debate the future of democratic reform and other issues; both Tsang and Beijing would prefer to avoid such debate. Further progress toward universal suffrage, required by Hong Kong's Basic Law, has been deferred until at least 2012.

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Economics  
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¶11. (U) Hong Kong is a valuable United States partner on trade liberalization and other economic issues. Hong Kong's transparent regulatory regimes, modern financial systems, rule of law, open society, and long experience with capitalism serve as a model for mainland China's own development. Hong Kong is a global nexus of people, goods and finance. Like the United States, Hong Kong is confronting the challenges of continuing to effectively move goods, people and money and providing reliable and secure communications systems, while at the same time controlling the spread of WMD, drugs and diseases such as Avian Flu.

¶12. (U) Hong Kong suffered a series of economic shocks after the 1997 handover, including the Asian Financial Crisis, the migration of its manufacturing sector to mainland China, and the SARS outbreak. These economic crises dented public confidence in the first post-handover government headed by Tung Chee Hwa. The economy rebounded in 2003 amidst strong growth in China, increased tourism, and a healthy global economy. The Hong Kong government is deepening its economic interaction with the Pearl River Delta (PRD) in Southern China to maintain its position as a gateway to China. Services industries make up 90 percent of Hong Kong's GDP (US\$ 180 billion in 2005) with a focus on financial and professional services, transportation and logistics and tourism. Hong Kong faces sharpening competition from mainland rivals in services industries; however, its strong rule of law record, modern practices and transparent society suggest that it will remain a key finance and services hub.

¶13. (U) Hong Kong consistently advocates for open global trade. In the U.S. - Hong Kong trade arena, textiles, civil aviation and IPR continue to be key issues. We have negotiated an MOU with Hong Kong to combat illegal transshipments of Chinese textiles. We urge Hong Kong to further liberalize its civil

HONG KONG 00003911 004 OF 004

aviation market, which Cathay Pacific continues to dominate. Hong Kong has dramatically improved its enforcement of IPR, but there are ongoing concerns about pending changes to the Copyright Law, end-user software piracy, and pharmaceutical-related infringements.

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Environment  
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¶14. (U) Hong Kong's air quality has deteriorated dramatically over the past ten years due to pollution that can be traced to the tremendous growth of factories across the border in the Pearl River Delta of mainland China. There is growing concern among Hong Kong residents that pollution is having an increasingly negative impact on health, quality of life and the economy.

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Avian Influenza  
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¶15. (SBU) Hong Kong has experienced two human outbreaks of the highly pathogenic H5N1 subtype of the AI virus. The city's earliest case of bird-to-human transmission was in 1997 when eighteen people were infected with H5N1; six died. In the 2003 outbreak, two Hong Kong citizens died while traveling in Southern China. Between 1997 and 2005, Hong Kong slaughtered over 4 million birds to prevent spread of AI. Although there have been no recent human cases in Hong Kong, since January the virus has resurfaced in a number of native wild birds and in two chickens, which may have come from mainland China. Health experts believe that H5N1 is present in Hong Kong's natural environment.

¶16. (SBU) Hong Kong has some of the world's leading AI researchers, extensive experience in dealing with SARS, and a well-organized AI response plan. The Centre for Health Protection (CHP) leads the HKG's AI preparations. After SARS, the HKG formed the CHP to deal with infectious disease threats. The HKG plans to acquire 20 million doses of Tamiflu by 2007 and is talking to manufacturers about purchasing a H5N1 vaccine when it is produced. Continually updating its AI response plan, the HKG works with the private sector and community groups.  
Cunningham